

WIX

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Q4 / FY 2023 Earnings Call

Prepared Remarks

Emily Liu, Investor Relations

Thanks, and good morning, everyone. Welcome to Wix's fourth quarter and full year 2023 earnings call. Joining me today to discuss the results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, our President and COO; and Lior Shemesh, our CFO.

During this call, we may make forward-looking statements, and these statements are based on current expectations and assumptions. Please consider the risk factors included in our press release and most recent Form 20-F that could cause our actual results to differ materially from these forward-looking statements. We do not undertake any obligation to update these forward-looking statements.

In addition, we will comment on non-GAAP financial results and key operating metrics. You can find all reconciliations between our GAAP and non-GAAP results in the earnings materials and in our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com.

With that, I'll turn the call over to Avishai.

Avishai Abrahami, Co-founder and CEO

Thanks Emily and good morning, everyone.

2023 was a milestone year for Wix. We maintained our leadership position as the go-to web creation platform for any user and any business, grew market share through best-in-class innovation, executed successfully on key initiatives and achieved strong growth with record profitability.

The incredible progress we made this year positions us to accelerate growth in 2024, and we now expect to exceed the targets outlined in the three-year plan we provided at our August Analyst Day. Lior will walk through the details around our updated expectations in a few minutes.

For me, 2023 will be remembered as the year of pivotal advances in our product suite. We started off the year labeled by others as a company facing potential AI disruption. Since then, we believe we have proven ourselves not only to be a beneficiary of broader AI advancements, but also an AI leader among peers.

We have spent the past eight years developing and embedding AI technology in our products as well as across our operations. This year, we meaningfully extended an already impressive toolkit of AI capabilities to include new AI-powered features that help Wix users create visual and written web content more easily, optimize design and content layout, write code and manage their websites and businesses more efficiently.

Key AI products introduced in last year include an AI Chat Experience for Business, Responsive Design AI, AI Code Assistant, AI Meta Tag Creator and AI Text and Image Creators, among several other AI design tools.

We also recently released our AI Site Generator and have heard fantastic feedback so far. I believe this will be the first AI tool on the market that creates a full-blown, tailored and ready-to-publish website integrated with relevant business applications based on user prompts.

Our AI technology has benefited all of our users, with both Self Creators and Partners having shown excellent engagement over the past year. In fact, the majority of new users today are using at least one AI tool on their web creation journey. This has resulted in reduced friction and enhanced the creation experience for users, as well as increased conversion and improved monetization. We expect our AI technology to be a significant driver of growth in 2024 and beyond.

We have also leveraged AI to improve many of our internal processes at Wix, especially research and development velocity. This includes an open internal AI deployment platform that allows for everyone at Wix to contribute to building AI-driven user features in tandem.

We also have a GenAI-based platform dedicated to conversational assistance which allows any product team at Wix to develop their own assistant tailored to specific user needs without having to start from scratch. With these platforms, we are able to develop and release high-quality AI-based features and tools efficiently and at scale.

We expect AI to continue to be a major competitive advantage for us as we build our product suite with more AI tools to make the web creation experience more frictionless for users, as well as helping to improve operations.

In addition to AI, we made a huge step in our offering for Partners this year with the introduction of Studio, our cornerstone Partner web development platform.

Since August, more than 500 thousand agencies and freelancers have created Studio accounts, and we currently have more Studio premium subscriptions than we expected to have at this point. Most notably, nearly half of our Studio accounts were created by new Partners who had not created on Wix before.

This strong start is a testament to the trailblazing innovation of Studio and our success in winning market share amongst professionals and larger agencies. With all of the feedback and outperformance so far, I am confident that Studio is our most successful product to date.

Since our initial investments into the professional market in 2019, we continue to see considerable momentum with Partners revenue growing nearly 40% year over year in the most recent two quarters. This growth has been driven by the incredible strides we've made in building a best-in-class product tailored for the agency and freelancer market.

And we have no plans of slowing – there are a number of improvements and new exciting tools on the way for Partners. We expect Studio and our broader professional product offering to be a meaningful catalyst of growth in the coming years.

Looking ahead to 2024, I am excited to build upon the success of the past year. Thank you to the entire Wix team – it is because of you and your hard work that I am confident that 2024 will be another year of incredible milestones and unbounded potential.

With that, Nir – over to you.

Nir Zohar, President & COO

Thanks, Avishai.

I'd like to share a bit more about the business fundamentals underpinning the strong top-line performance achieved in 2023 and the primary growth drivers that we expect to accelerate growth in 2024.

The 2023 cohort performed extremely well and was among the strongest non-COVID cohorts in our history. Our Q1'23 cohort generated \$60.4 million dollars in cumulative bookings through its first four quarters. This is the second highest level of cumulative bookings in this time frame behind only the Q1'21 cohort, which benefited greatly from COVID tailwinds.

This performance is particularly impressive given the significantly smaller user base of the Q1'23 cohort compared to previous cohorts, due to our streamlined marketing strategy targeting higher intent users with lower amounts of acquisition marketing investment. Our success here is a testament to the scale of the Wix brand and the value our platform provides to users.

This strong cohort behavior also demonstrates the solid fundamentals of our business, including steadily improved conversion and monetization.

ARPS improved to more than \$253 dollars in 2023, up 10% year over year, driven by a continued mix shift to higher-tiered packages, higher pricing, and increased adoption and usage of Business Solution products as we continued to onboard higher-intent and commerce-oriented users, particularly Partners.

Existing cohort behavior also improved compared to the prior year, demonstrated by net revenue retention increasing to 105% in 2023 from 102% in 2022.

We now expect existing user cohorts to generate over \$16.2 billion dollars in bookings over the next 10 years, illustrating the power of our business model and differentiated product offering.

Turning to 2024, Lior will share the details of our outlook in a moment, but before he does, I want to highlight the drivers that we believe will accelerate bookings growth in the coming year.

First, the launch of Wix Studio has been a great success. We have seen existing partners build more projects on Wix and many new partners join our platform. We believe Studio will continue to bring an increase to the activity of partners on Wix, which will drive growth in overall monetization of our Partner cohorts.

Second, we expect conversion and ARPS of Self Creators to trend positively, as our leading product suite continues to resonate and enables users to meet their goals online.

Third, as Avishai mentioned, uptake of the milestone AI initiatives of 2023 has been incredible, and we expect to see ramping conversion and monetization benefits from our entire AI toolkit for both Self Creators and Partners this year.

Fourth, we expect continued success in bringing on new businesses and commerce users that generate GPV and adopt business applications. We will also benefit from the compounding growth of GPV from existing commerce users.

Finally, we have recently implemented higher pricing for new and existing subscriptions.

This recent price action is part of our goal of aligning the continuously growing value we deliver to users to the price they pay. Our users have responded extremely well historically, with strong retention within our cohorts during past increases, which provides us with confidence that our approach to pricing is working.

Following our price increases in 2019 and 2022 as well as this one, we believe there is still considerable room to continue to increase price as we innovate and deliver incremental value to users. We expect to continue to explore potential price actions at a similar cadence going forward.

Because of these drivers and the continued momentum we've seen this year so far, we are confident that our business will experience an acceleration in growth in 2024.

With that, I will now hand it over to Lior to walk through more details on our financials, 2024 outlook and improved 2025 expectations. Lior?

Lior Shemesh, CFO

Thanks, Nir.

We finished 2023 on a very strong note, which we believe puts us on a great path going into 2024 and 2025.

As our business fundamentals continue to improve. We have seen early success with Wix Studio and our AI products, as well as an improving macro environment, giving us confidence in our ability to accelerate year over year bookings growth in 2024, which we believe puts us on track to accelerate year over year revenue growth in 2025.

We now expect to outperform the 2024 targets we shared at our Analyst Day in August and believe that we will significantly surpass the Rule of 40 in 2025.

Before I go through the details of our 2024 outlook, I want to quickly summarize our Q4 and full year 2023 results. Note that all financial data are non-GAAP unless otherwise noted.

Q4 total revenue was \$404 million dollars, up 14% year over year.

Revenue growth was driven primarily by Partners revenue, which grew 38% year over year. As Avishai mentioned, Studio is off to a great start, exceeding our expectations.

Creative Subscriptions revenue in Q4 grew nearly 12% year over year, and Business Solutions revenue in Q4 grew 20% year over year.

We expanded total gross margin in Q4 to 70%, and operating income grew to nearly \$65 million dollars or 16% of revenue.

In Q4, sales and marketing expenses grew quarter over quarter to \$92 million dollars as we increased our investments in the Wix Studio brand. While we expect to continue gaining leverage on marketing due to our streamlined marketing strategy, especially with Self Creators, we plan to continue investing in the Studio brand in 2024.

Q4 free cash flow excluding headquarters and restructuring costs was over \$90 million dollars, or 22% of revenue, as we continued to benefit from high operating efficiencies.

Moving onto 2023 full year results, total revenue grew to \$1.56 billion dollars, or 13% year over year, and Creative Subscriptions ARR was \$1.19 billion, up over 10% year over year.

We ended 2023 with a total gross margin of 68%, an improvement of nearly 500 basis points compared to 2022. Throughout the year, we benefited from improved efficiencies in hosting and infrastructure costs and optimization of support costs, partly aided by integrating AI into our workflows.

Creative Subscriptions gross margin expanded to 82% in 2023, and Business Solutions gross margin grew to 29% for the full year as we continue to benefit from improving margins in Wix Payments.

In 2023, we generated a total of \$246 million dollars in free cash flow, excluding headquarters and restructuring costs, a margin of 16% of revenue, ahead of our prior expectations and guidance.

This included breakeven free cash flow in our Partners business – a significant milestone and one year ahead of our three-year plan. This was a result of strong sustained growth as well as improved gross margin and meaningful operating leverage driven by the broader efficiencies implemented over the past two years.

We expect to continue to generate incremental margin improvement from the continued scaling of our commerce business and a stable operating expense base as our Partners business continues to grow. As a result, we now expect to significantly exceed the Partners FCF margin target for 2024 and 2025 as outlined in our three-year plan.

I'm also happy to report that we finished 2023 with GAAP net income of \$33 million dollars, our first year of GAAP profitability.

This profitability was due to the careful management of costs throughout the last year, including stock based compensation costs, which declined as a percent of revenue for the third straight year.

These results demonstrate the fantastic growth and incremental profitability of our business. We re-accelerated year over year revenue growth due to strong fundamentals of our user cohorts and a strong cadence of product innovation. The continued returns from the cost efficiency culture we have implemented at Wix over the last year and a half drove strong incremental profits.

We believe that these results put us in a very strong position to accelerate growth into 2024, and our successful efforts in implementing operating efficiency gives me confidence we can continue to generate incremental profitability.

I now want to spend the rest of my time on our expectations for 2024.

We are re-introducing annual bookings guidance due to the improved visibility and confidence in our business, a stable and positively-trending macro environment and strong cohort behavior, particularly in our Partners business.

For the full year 2024, we expect total bookings of \$1.78 to \$1.81 billion dollars, or 12 to 14% year over year, an acceleration from 2023.

We expect year over year growth of total bookings to accelerate in the second half of 2024 to 15% at the high end of the guidance range. In particular, the acceleration is expected to be primarily in Creative Subscription bookings, bringing it to double digit year over year growth in the second half of 2024.

This anticipated growth positions the business to achieve accelerating year over year revenue growth in 2025. Nir walked you through the drivers of our bookings growth in 2024, and you can find additional information in the Shareholder Update.

For the full year 2024, we expect total revenue to be \$1.73 to \$1.76 billion dollars, or 11 to 13% year over year.

We expect total revenue in Q1 2024 of \$415 to \$419 million dollars, or 11 to 12% year over year.

We continue to operate the business in an efficient manner as evidenced by the meaningful operating leverage we generated in 2023 on both a GAAP and non-GAAP basis. We plan to operate with the same efficiency in 2024 and expect strong growth in gross profit due to anticipated gross margin improvements on a year over year basis.

For the full year 2024, we expect non-GAAP total gross margin of 68 to 69% with non-GAAP Business Solutions gross margin to be approximately 30% for the full year, ahead of the plan we shared in August.

We also expect to generate additional leverage due to minimal growth in operating expenses year over year.

We expect non-GAAP operating expenses to be 51 to 52% of revenue for the full year, also better than our August plan, and non-GAAP sales and marketing to remain similar to 2023 at roughly 23 to 24% of revenue.

We will continue with marketing activities related to Wix Studio throughout 2024 as we capitalize on the growth we have seen since its launch.

We anticipate that our strong growth and operating efficiency will generate positive GAAP operating profit and net income in 2024.

We expect to generate free cash flow, excluding headquarters costs, of \$370 to \$400 million dollars, or 21 to 23% of revenue in 2024.

We expect this free cash flow guidance -- in combination with our share repurchase activity -- will translate to more than \$6 dollars in free cash flow per diluted share in 2024, ahead of our three-year plan.

As we continue to responsibly manage dilution, we expect stock based compensation expenses to decline for the third consecutive year as a percent of revenue to approximately 13% of revenue in 2024, in line with our three-year plan.

We expect capital expenditures, excluding costs associated with our new headquarters build out, of approximately \$7 to \$10 million dollars in 2024. We will incur the final costs for our new headquarters in the first half of the year and anticipate these costs to be roughly \$8 to \$10 million dollars.

We are very excited about the upcoming year. We believe we have positioned ourselves to re-accelerate growth and generate incremental profitability.

With that, we will now take your questions.